

Kensington Woods High School

Howell, Michigan

Audited Basic Financial Statements

June 30, 2006

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Kensington Woods High School

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kensington Woods High School, as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements listed in the table of contents. These financial statements are the responsibility of Kensington Woods High School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Kensington Woods High School as of June 30, 2006, and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages iii through viii and 21, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kensington Woods High School's basic financial statements. The introductory section, combining and individual non major fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2006 on our consideration of Kensington Woods High School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.


Croskey, Lanni & Company, P.C.

August 18, 2006
Rochester, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Kensington Woods High School's, "KWHS", annual financial report presents our discussion and analysis of the school's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the school's financial statements, which immediately follow this section.

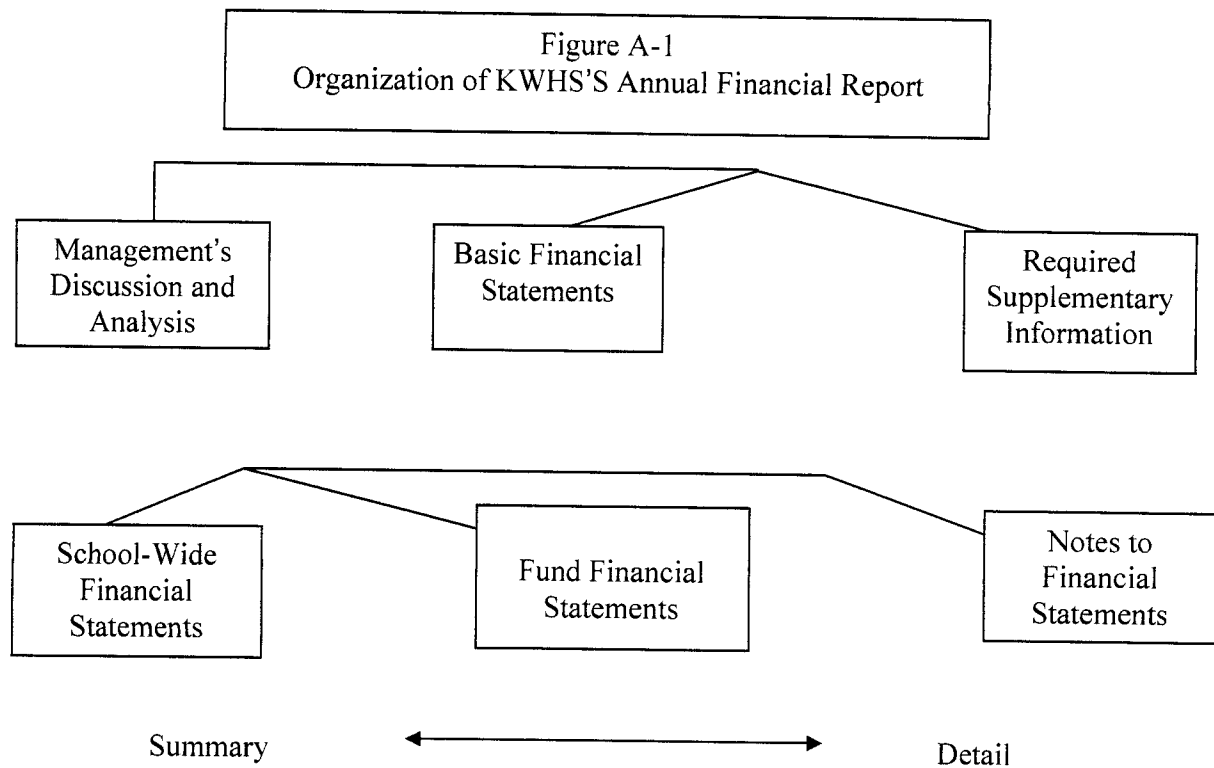
FINANCIAL HIGHLIGHTS

- ❖ The school received a \$175 increase in state aid resulting in a per pupil allowance of \$6,875.
- ❖ Student enrollment increased to 204 as compared to 188 last year.
- ❖ The total cost of basic programs was \$495,607.
- ❖ Revenues were at \$1,497,255 while expenses were \$1,737,950. Excess expenditures were covered by fund balance and an equipment loan with First National Bank of Howell.
- ❖ The school reduced its outstanding long-term debt, which consists of a business loan used to purchase the school's prior facilities and other capital leases by \$150,835.
- ❖ The school has a positive fund balance in the General fund of \$56,803.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements which include two kinds of statements that present different views of the school:

- ❖ The first two statements are school wide financial statements that provide both short-term and long-term information about the school's overall financial status.
- ❖ The remaining statements are fund financial statements that focus on individual parts of the school, reporting the schools operations in more detail.
- ❖ The governmental fund statements tell how basic services like regular and special education were financed.
- ❖ Fiduciary funds statements provide information about the financial relationships in which the school acts solely as a trustee or agent for the benefit of others. These consist of student activity funds held by the school on behalf of the student group.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the school's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2
Major Features of School-Wide and Fund Financial

Fund Financial Statements			
	School-Wide Statements	Government Funds	Fiduciary Funds
Scope	Entire school (except fiduciary funds)	The activities of the school that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the school administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required Financial Statements	*Statement of net assets *Statement of activities	*Balance sheet *Statement of revenues, expenditures and changes in fund balances	*Statement of fiduciary net assets *Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the school's financial statements, including the portion of the schools activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

SCHOOL-WIDE STATEMENTS

The school-wide statements report information about the school as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the school's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two school-wide statements report the school's net assets and how they have changed. Net assets – the difference between the school's assets and liabilities – are one way to measure the school's financial health or position.

- ❖ Over time, increases or decreases in the school's assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- ❖ To assess the overall health of the school, you need to consider additional non-financial factors such as changes in the school's enrollment and the condition of school buildings and other facilities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the school's funds, focusing on its most significant or "major" funds – not the school as a whole. Funds are accounting devices the school uses to keep track of specific sources of funding and spending on particular programs:

- ❖ *Governmental activities* – Most of the school's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.
- ❖ The school establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues.

The school has two kinds of funds:

- ❖ *Governmental funds* – Most of the school's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the school's programs. Because this information does not encompass the additional long-term focus of the school-wide statements, we provide additional information with governmental funds statements that explains the relationship (or differences) between them.
- ❖ *Fiduciary funds* – The school is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the school-wide financial statements because the school cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

The comparison of current year to prior year financial information is on the following pages. See tables A-3, A-4, and A-5.

The school's financial position is the product of many factors. The asset depreciation schedule was implemented three years ago as required by GASB 34.

School Governmental

The stability of the school's finances is a result of the following measures:

- ❖ Continued increase in enrollment.
- ❖ Enrollment in evening program continues to increase allowing for additional student capacity.
- ❖ Debt on previous facility has been paid in full, capital lease payments will reduce drastically in coming school year.

General Fund Budgetary Analysis

Over the course of the year, the school reviewed the annual operating budget several times. All invoices were paid in a timely matter.

Financial Outlook

Kensington Woods High School's financial forecast continues to be optimistic heading into the 2006-2007 school year.

- ❖ School changed its name in August 2005 and completed extensive advertising to re-brand school.
- ❖ Enrollment continues to grow with an estimated enrollment of 240 for 2006-2007.
- ❖ Added programs such as Robotics, Foreign Language and further additions to the Extended Day Program.
- ❖ State Aid is anticipated to increase by \$210 per pupil for the 2006-2007 school year.

Appendix A

Table A-3
KWHS's Net Assets

	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 326,932	\$ 488,959
Capital assets	<u>225,304</u>	<u>148,399</u>
Total assets	552,236	637,358
Long-term debt outstanding	157,080	131,416
Other liabilities	<u>270,129</u>	<u>367,962</u>
Total liabilities	427,209	499,378
Net assets:		
Restricted	68,224	-
Unrestricted	<u>56,803</u>	<u>137,980</u>
Total net assets	<u>\$ 125,027</u>	<u>\$ 137,980</u>

Table A-4
Changes in KWHS's Net Assets

	<u>2006</u>	<u>2005</u>
Revenues:		
Program revenues:		
Charges for services	\$ 15,979	\$ 14,550
Federal and state operating grants	40,798	54,186
General revenues:		
State aid - unrestricted	1,403,528	1,255,848
Miscellaneous	<u>36,950</u>	<u>1,500</u>
Total revenues	1,497,255	1,326,084
Expenses:		
Instruction	495,607	493,827
Support services	943,753	807,555
Interest on long-term debt	29,732	18,933
Unallocated depreciation	<u>41,116</u>	<u>17,764</u>
Total expenses	<u>1,510,208</u>	<u>1,338,079</u>
Decrease in net asset	<u>\$ (12,953)</u>	<u>\$ (11,995)</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2006, the school had invested \$310,884 in capital assets, including computers, software, furniture and equipment. See table A-5 below for a listing of capital assets, and the accumulated depreciation.

Table A-5 KWHS's Capital Assets			
	<u>Cost</u>	<u>Accumulated and depreciated</u>	<u>Net book value</u>
Computers and software	\$ 228,078	\$ 63,966	\$ 164,112
Improvements	24,574	1,608	22,966
Furniture and equipment	<u>58,232</u>	<u>20,006</u>	<u>38,226</u>
Total	<u>\$ 310,884</u>	<u>\$ 85,580</u>	<u>\$ 225,304</u>

Long-Term Debt

At year end the school had debt of \$157,082 consisting of a business loan and a capital lease.

- ❖ The school continued to pay down its debt, retiring \$150,835.

FACTORS BEARING ON THE SCHOOL'S FUTURE

- ❖ Continuation of positive enrollment trends
- ❖ State aid foundation grant stabilization
- ❖ Re-branding of school to Kensington Woods High School
- ❖ Added programs such as Robotics, Foreign Language and further additions to the Extended Day Program.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our students, parents and creditors with a general overview of the school's finances and to demonstrate the school's accountability for the money it receives. If you have questions about this report or need additional information, contact the school's office at:

Kensington Woods High School, 3700 Cleary Drive, Howell MI 48843

KENSINGTON WOODS HIGH SCHOOL

STATEMENT OF NET ASSETS

JUNE 30, 2006

ASSETS

Current Assets

Cash and cash equivalents	\$ 26,390
Due from other governmental units	269,718
Prepaid expenses	<u>30,824</u>

Total current assets	326,932
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Furniture and Equipment

At cost less accumulated depreciation of \$85,580	<u>225,304</u>
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Total assets	<u><u>\$ 552,236</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 5,973
Notes payable	256,500
Other accrued expenses	7,656
Long-term debt - current portion	<u>50,854</u>

Total current liabilities	320,983
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Long-Term Debt - Long-Term Portion	106,226
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Net Assets

Invested in capital assets, net of related debt	68,224
Unrestricted	<u>56,803</u>

Total net assets	<u>125,027</u>
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Total liabilities and net assets	<u><u>\$ 552,236</u></u>
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See accompanying notes to financial statements

KENSINGTON WOODS HIGH SCHOOL

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

Functions	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets Government Type Activities
		Charges for Services	Operating Grants	
High school	\$ 495,607	\$ 15,979	\$ 15,355	\$ (464,273)
Special education	80,584	-	25,443	(55,141)
Support services	41,390	-	-	(41,390)
General administration	6,698	-	-	(6,698)
Executive administration	210,546	-	-	(210,546)
Business administration	221,432	-	-	(221,432)
Business support services	233,015	-	-	(233,015)
Operation and maintenance	123,058	-	-	(123,058)
Other business services	27,030	-	-	(27,030)
Depreciation	41,116	-	-	(41,116)
Interest	29,732	-	-	(29,732)
Total primary government	<u>\$ 1,510,208</u>	<u>\$ 15,979</u>	<u>\$ 40,798</u>	<u>(1,453,431)</u>
General Purpose Revenues:				
State school aid - unrestricted				1,403,528
Donation				<u>36,950</u>
Total general purpose revenues				<u>1,440,478</u>
Deficiency of revenues over expenses				(12,953)
Net assets, July 1, 2005				<u>137,980</u>
Net assets, June 30, 2006				<u>\$ 125,027</u>

See accompanying notes to financial statements

KENSINGTON WOODS HIGH SCHOOL
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2006

ASSETS

	<u>General</u>
Cash	\$ 26,390
Due from other governmental units	269,718
Prepaid expenses	<u>30,824</u>
 Total assets	 <u><u>\$ 326,932</u></u>

LIABILITIES AND FUND BALANCES

Liabilities

Accounts payable	\$ 5,973
Notes payable	256,500
Other accrued expenses	<u>7,656</u>
 Total liabilities	 270,129

Fund Balances

Unreserved:	
Undesignated	<u>56,803</u>
 Total liabilities and fund balances	 <u><u>\$ 326,932</u></u>

See accompanying notes to financial statements

KENSINGTON WOODS HIGH SCHOOL

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

JUNE 30, 2006

Amounts reported for governmental activities in the statement of net assets are different because:

Total Governmental Fund Balances	\$ 56,803
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$310,884 and the accumulated depreciation is \$85,580.	225,304
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(157,080)</u>
Net Assets of Governmental Activities	<u>\$ 125,027</u>

See accompanying notes to financial statements

KENSINGTON WOODS HIGH SCHOOL

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>
Revenues	
Local sources	\$ 52,929
State sources	1,441,920
Federal sources	<u>2,406</u>
Total governmental fund revenues	1,497,255
Expenditures	
High school	495,607
Special education	80,584
Support services	41,390
General administration	6,698
Executive administration	210,546
Business administration	221,432
Business support services	233,015
Operations and maintenance	123,058
Other business services	27,030
Capital outlay	118,022
Debt principal and interest	<u>180,568</u>
Total governmental fund expenditures	<u>1,737,950</u>
Deficiency of revenues over expenditures	(240,695)
Other Financing Sources	
Proceeds from long-term debt	<u>97,532</u>
Deficiency of revenues and other financing sources over expenditures	(143,163)
Fund balance, July 1, 2005	<u>199,966</u>
Fund balance, June 30, 2006	<u><u>\$ 56,803</u></u>

See accompanying notes to financial statements

KENSINGTON WOODS HIGH SCHOOL

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net Change in Fund Balances - Total Governmental Funds	\$ (143,163)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an individual cost of more than \$100 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	\$ 118,022	
Depreciation expense	<u>(41,116)</u>	76,906

The governmental funds report loan proceeds as an other financing source, while repayment of loan principal is reported as an expenditure. The net effect of these differences in the treatment of general loan obligations is as follows:

Proceeds from long-term debt	\$ (97,532)	
Principal payments on long-term debt	<u>150,836</u>	<u>53,304</u>

Change in Net Assets of Governmental Activities	<u>\$ (12,953)</u>
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See accompanying notes to financial statements

KENSINGTON WOODS HIGH SCHOOL

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2006**

ASSETS

	<u>Agency</u>
Cash and cash equivalents	\$ 2,113
Total assets	<u>\$ 2,113</u>

LIABILITIES

Due to student groups	\$ 2,113
Total liabilities	<u>\$ 2,113</u>

See accompanying notes to financial statements

KENSINGTON WOODS HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - Summary of Significant Accounting Policies

The accounting policies of Kensington Woods High School (the "Academy") conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

Reporting Entity

Kensington Woods High School, formerly Livingston Technical Academy, was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on August 16, 2000, and began operation in September 2000.

In June 2002, the Academy entered into a five-year contract with Central Michigan University's Board of Trustees to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The University's Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays Central Michigan University's Board of Trustees three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2006 were approximately \$42,100.

In July 2005, the Academy entered into a five-year agreement with CS Partners, LLC ("CSP"). Under the terms of this agreement "CSP" provides a variety of services including financial management, educational programs and consulting, as well as teacher training. The Academy is obligated to pay "CSP" a fee equal to 12% of state school aid through the termination of the contract. The total paid for these services amounted to \$168,440 for the year ended June 30, 2006.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operation of financial relationships with the public school academy. Based on application of criteria, the entity does not contain component units.

Fund Financial Statements

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The Academy only has a General Fund and is therefore designated as its major fund.

KENSINGTON WOODS HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - Summary of Significant Accounting Policies - Continued

Basis of Presentation - Fund Accounting

The accounts of the Academy are organized on the basis of funds. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories.

Governmental Funds

A governmental fund is a fund through which most academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through a governmental fund.

General Fund - The general fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Governmental funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Other revenue is recorded when received.
- b. Payments for inventorable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.
- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and so recognized as revenue in accordance with state law. A major portion of the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon continued qualification for such aid.

KENSINGTON WOODS HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - Summary of Significant Accounting Policies - Continued

Government Wide Financial Statements

The government-wide financial statements (i.e. the statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation's with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses, and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self financing or draws from the general revenues of the Academy.

Net assets should be reported as restricted when constraints placed on net asset use are either externally, imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Cash and Cash Equivalents

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition.

Receivables

Receivables at June 30, 2006 consist primarily of state school aid due from the State of Michigan. All receivables are expected to be fully collected in July and August of 2006 and are considered current for the purposes of these basic financial statements.

KENSINGTON WOODS HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - Summary of Significant Accounting Policies - Continued

Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The Academy follows the policy of not capitalizing assets with a useful life of less than 1 year. The Academy does not possess any infrastructure assets.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	10 - 50 years
Furniture and equipment	3 - 15 years
Computers and software	3 - 10 years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of capital leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

KENSINGTON WOODS HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2 - Stewardship, Compliance and Accountability

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year end and encumbrances are not formally recorded.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. During the year ended June 30, 2006 the budget was amended in a legally permissible manner.

The budget statement (budgetary comparison schedule - all governmental funds) is presented on the combined statement of revenue, expenditures, and fund balances. Budget overruns are as follows:

General Fund	Budget	Actual
Special education	\$ 62,533	\$ 80,584
Building administration	216,330	221,432
Capital outlay	100,000	118,022

NOTE 3 - Deposits and Investments

The Academy maintains cash balances at various financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000 per deposit account. The Academy did not have an uninsured and uncollateralized cash balance as of June 30, 2006.

NOTE 4 - Due From Other Governmental Units

Amounts owed from governmental units and other consist of the following:

Special education	\$ 2,674
State aid	255,327
At risk	1,795
Vocational education	2,768
Miscellaneous	7,154
Total	<u>\$ 269,718</u>

KENSINGTON WOODS HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 5 -Notes Payable

The Academy has obtained a \$400,000 line of credit from a financial institution. The line was issued to provide the Academy with operating money during the course of the school year. The line bears interest at 6%. Activity on the line of credit can be summarized as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2006</u>
LOC #1	\$ 261,907	\$ -	\$ 261,907	\$ -
LOC #2	-	256,500	-	256,500
Total	<u>\$ 261,907</u>	<u>\$ 256,500</u>	<u>\$ 261,907</u>	<u>\$ 256,500</u>

NOTE 6 - Accrued Expenses

Amounts accrued at year end consist of the following:

University oversight	<u>\$ 7,656</u>
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NOTE 7 - Capital Assets and Depreciation

Capital asset activity of the Academy's governmental activities was as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Balance June 30, 2006</u>
Computers	\$ 113,121	\$ 39,882	\$ 153,003
Software	1,375	73,700	75,075
Furniture and fixtures	29,955	4,440	34,395
Office equipment	23,837	-	23,837
Leasehold improvements	<u>24,574</u>	<u>-</u>	<u>24,574</u>
Total cost	192,862	118,022	310,884
Less accumulated depreciation	<u>44,464</u>	<u>41,116</u>	<u>85,580</u>
Undepreciated cost	<u>\$ 148,398</u>	<u>\$ 76,906</u>	<u>\$ 225,304</u>

Depreciation expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

KENSINGTON WOODS HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 8 - Long-Term Obligations Payable

The following is a summary of long-term obligations for the Academy during the year ended June 30, 2006:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Retirements & Payments</u>	<u>Balance June 30, 2006</u>	<u>Due Within One Year</u>
Business loan #1	\$ 129,675	\$ -	\$ 121,920	\$ 7,755	\$ 7,755
Business loan #2	-	97,532	10,773	86,759	23,029
Capital lease	80,710	-	18,142	62,568	20,070
Total long-term debt	<u>\$ 210,385</u>	<u>\$ 97,532</u>	<u>\$ 150,835</u>	<u>\$ 157,082</u>	<u>\$ 50,854</u>

The Academy has obtained business loans from an unrelated third party bearing interest at .8% above the bank's prime rate, adjusted monthly and payable in monthly installments of \$10,500 and \$2,287 through September, 2006 and December, 2009.

	<u>Principal</u>	<u>Interest</u>
2007	\$ 50,854	\$ 9,887
2008	46,604	6,341
2009	46,150	2,546
2010	13,474	224

The Academy is the lessee of various classroom and office equipment held under a capital lease agreement. The lease is collateralized by the equipment, bearing interest at 10.1% and expires during the year ending June 30, 2009.

2007	\$ 25,500
2008	25,500
2009	<u>21,250</u>
Subtotal	72,250
Less amount representing interest	<u>9,682</u>
Present value of minimum lease payments	<u>\$ 62,568</u>

KENSINGTON WOODS HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 9 - Operating Lease

The Academy has entered into an operating lease with a third party for facilities. The Academy is responsible for utilities, property taxes and repairs. The Academy is required to maintain adequate property and liability insurance coverage as well as maintain the property in like condition as at the inception of the lease term. The rent is fixed at \$180,000 for the first two years, with an annual increase in years three through ten. The property is held under a ten year non-cancelable lease term which began in July 2003.

The approximate amount of operating lease obligations coming due for the five years ending June 30, 2011 and in total are as follows:

2007	\$	218,236
2008		224,645
2009		231,246
2010		238,045
2011		245,048
2012 - 2013		511,953

The total rent expense included in the determination of net assets for the year ended June 30, 2006 amounted to \$218,831.

NOTE 10 - Retirement Plan

All leased employees of the Academy are eligible to participate in a retirement plan established by the management company which qualifies under the provisions of section 401(k). Eligible employees may contribute up to 15% of their salaries under the terms of this plan. The Academy can elect to contribute to the employees at its discretion. The Academy's contributions to the plan for the year ended June 30, 2006 amounted to \$42,190.

NOTE 11 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since the Academy's inception.



Croskey, Lanni & Company, PC
Certified Public Accountants and Business Advisors

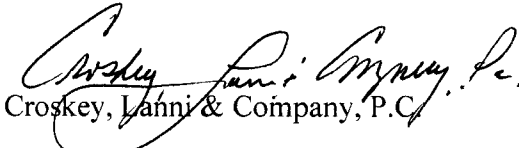
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David M. Croskey, CPA
Thomas B. Lanni, CPA
Carolyn A. Jones, CPA

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

**To the Board of Directors
of Kensington Woods High School**

We have audited the accompanying basic financial statements of Kensington Woods High School for the year ended June 30, 2006. Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Kensington Woods High School. This information has been subjected to the procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.


Croskey, Lanni & Company, P.C.

August 18, 2006
Rochester, Michigan

KENSINGTON WOODS HIGH SCHOOL

REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenues			
Local sources	\$ 38,000	\$ 44,000	\$ 52,929
State sources	1,398,000	1,445,805	1,441,920
Federal sources	-	2,406	2,406
Total governmental fund revenues	1,436,000	1,492,211	1,497,255
Expenditures			
High school	446,225	525,539	495,607
Special education	65,000	62,533	80,584
Support services	96,089	48,669	41,390
General administration	9,500	8,400	6,698
Executive administration	204,750	210,550	210,546
Building administration	203,330	216,330	221,432
Business support services	222,514	236,500	233,015
Operations and maintenance	113,941	131,011	123,058
Other business services	25,000	30,000	27,030
Capital outlay	10,000	100,000	118,022
Debt principal and interest	166,800	181,145	180,568
Total governmental fund expenditures	1,563,149	1,750,677	1,737,950
Excess (deficiency) of revenues over expenditures	(127,149)	(258,466)	(240,695)
Other Financing Sources (Uses)			
Proceeds from long-term debt	-	97,532	97,532
Proceeds from sale of assets	130,000	-	-
Excess of revenues and other financing sources over expenditures and other uses	2,851	(160,934)	(143,163)
Fund balance, July 1, 2005	199,966	199,966	199,966
Fund balance, June 30, 2006	\$ 202,817	\$ 39,032	\$ 56,803

See independent auditors report on supplemental information

KENSINGTON WOODS HIGH SCHOOL

SCHEDULE OF REVENUES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

Local Sources

Donation	\$ 36,950
Student tuition	<u>15,979</u>
Total local sources	52,929

State Sources

State aid	1,403,528
At risk	9,875
Special education	13,162
Vocational education	<u>15,355</u>
Total state sources	1,441,920

Federal Sources

Title II A	2,327
Title V	<u>79</u>
Total federal sources	<u>2,406</u>

Total general fund revenues	<u><u>\$ 1,497,255</u></u>
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See independent auditor's report on supplemental information

KENSINGTON WOODS HIGH SCHOOL

SCHEDULE OF EXPENDITURES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

High School

Purchased services - salaries	\$ 315,399
Purchased services - benefits	71,469
Purchased services - payroll taxes	31,345
Teaching supplies and textbooks	32,955
Equipment lease	10,139
Tuition expense	34,150
Dues and fees	<u>150</u>
Total high school	495,607

Special Education

Purchased services - salaries	78,392
Purchased services - payroll taxes	<u>2,192</u>
Total special education	80,584

Support Services

Purchased services - salaries	13,123
Purchased services - payroll taxes	773
Contracted services	22,494
Curriculum supplies	<u>5,000</u>
Total support services	41,390

General Administration

Professional fees	6,355
Miscellaneous	<u>343</u>
Total general administration	6,698

Executive Administration

University oversight	42,106
Management fees	<u>168,440</u>
Total executive administration	210,546

See independent auditor's report on supplemental information

KENSINGTON WOODS HIGH SCHOOL

SCHEDULE OF EXPENDITURES - GOVERNMENTAL FUNDS - Continued FOR THE YEAR ENDED JUNE 30, 2006

Building Administration

Purchased services - salaries	104,614
Purchased services - benefits	31,848
Purchased services - payroll taxes	8,435
Workshops and conferences	968
Advertising	60,500
Postage and delivery	4,001
Supplies and other	6,328
Dues and memberships	4,738
	<hr/>
Total building administration	221,432

Business Support Services

Building rent	218,831
Liability insurance	13,243
Bank fees	941
	<hr/>
Total business support services	233,015

Operations and Maintenance

Purchased services - salaries	37,832
Purchased services - benefits	3,228
Purchased services - payroll taxes	2,800
Building insurance	7,210
Telephone	4,282
Utilities	48,493
Repair and maintenance	13,103
Supplies	6,110
	<hr/>
Total operations and maintenance	123,058

Other Business Services

Data processing	27,030
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Capital Outlay

High school	111,287
Other business services	6,735
	<hr/>
Total capital outlay	118,022

Debt Principal and Interest

	<hr/>
	180,568

Total governmental fund expenditures	<hr/> <hr/>
	\$ 1,737,950

See independent auditor's report on supplemental information



David M. Croskey, CPA
Thomas B. Lanni, CPA
Carolyn A. Jones, CPA

**Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

**To the Board of Directors
of Kensington Woods High School**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kensington Woods High School as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated August 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kensington Woods High School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether Kensington Woods High School financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the board of directors and others within the Academy and is not intended to be and should not be used by anyone other than these specified parties.


Croskey, Lami & Company, P.C.

August 18, 2006
Rochester, Michigan